

Illinois LDC Perspective on Gas Supply

Illinois Commerce Commission 2016-2017 Winter Preparedness Policy Session

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Introduction

Statements in this report are generally indicative of the following Illinois utilities:

- Ameren Illinois
- MidAmerican Energy Company
- Nicor Gas
- North Shore Gas
- Peoples Gas



Gas Supply Planning Objectives

- Provide safe, reliable and economic natural gas service to our customers
- Contract for transportation, storage, balancing and peaking services capable of meeting forecasted peak design day while economically serving normal and warm weather demand
- Maintain a diversified capacity and supply portfolio by supply basin/market center, pipeline, producer and pricing structure
- Optimize capacity and supply resources to minimize costs for PGA customers
- Engage in hedging to provide insurance against price spikes

Winter 2015/2016 System Send-out (MMBtu)

	<u>High Day</u>	<u>Low Day</u>	<u>Average Day</u>
Nicor Gas	3,989,118	722,900	1,910,790
Ameren IL	1,194,629	311,501	620,872
Peoples Gas	1,513,149	197,316	714,722
North Shore	311,855	41,224	143,851
MidAmerican	97,339	14,801	43,024
Total	7,106,090	1,287,742	3,433,259

2016/2017 Forecasted Peak Design Day and Resources (MMBtu)

	Projected Design Day <u>Send-out *</u>	Pipeline Transport & <u>Storage</u>	On-system Storage (Including LNG)	Expected 3rd Party <u>Deliveries</u>
Nicor Gas	5,534,784	2,422,929	2,550,000	561,855
Ameren IL	1,663,705	745,691	558,759	359,255
Peoples Gas	2,048,090	780,394	1,037,363	230,333
North Shore	453,324	384,052	20,000	49,272
MidAmerican	123,064	91,204	12,756	19,104
Total	9,822,967	4,424,270	4,178,878	1,219,819

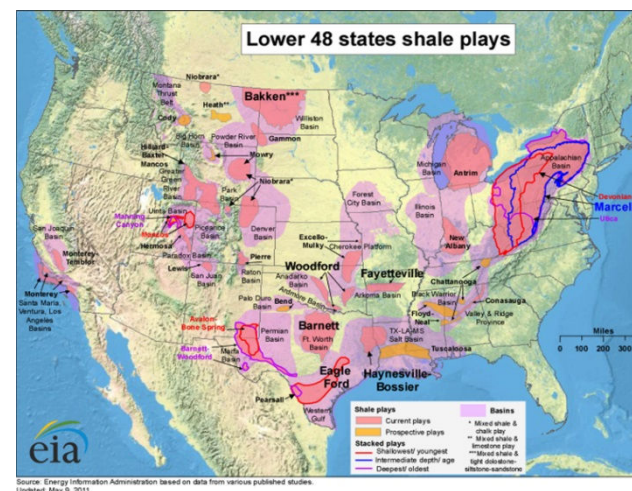
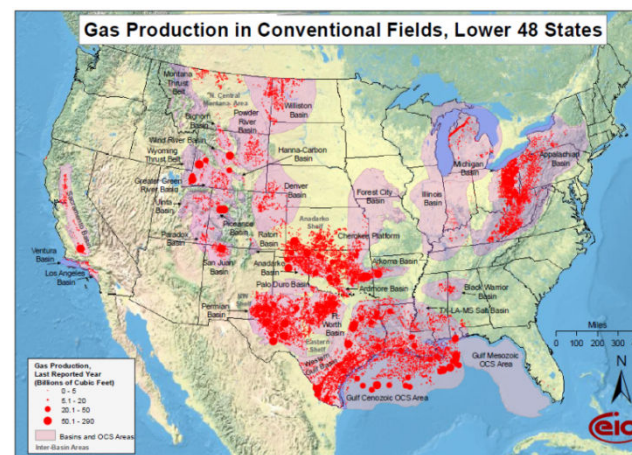
* Includes reserve margin

Gas Supply Strategy

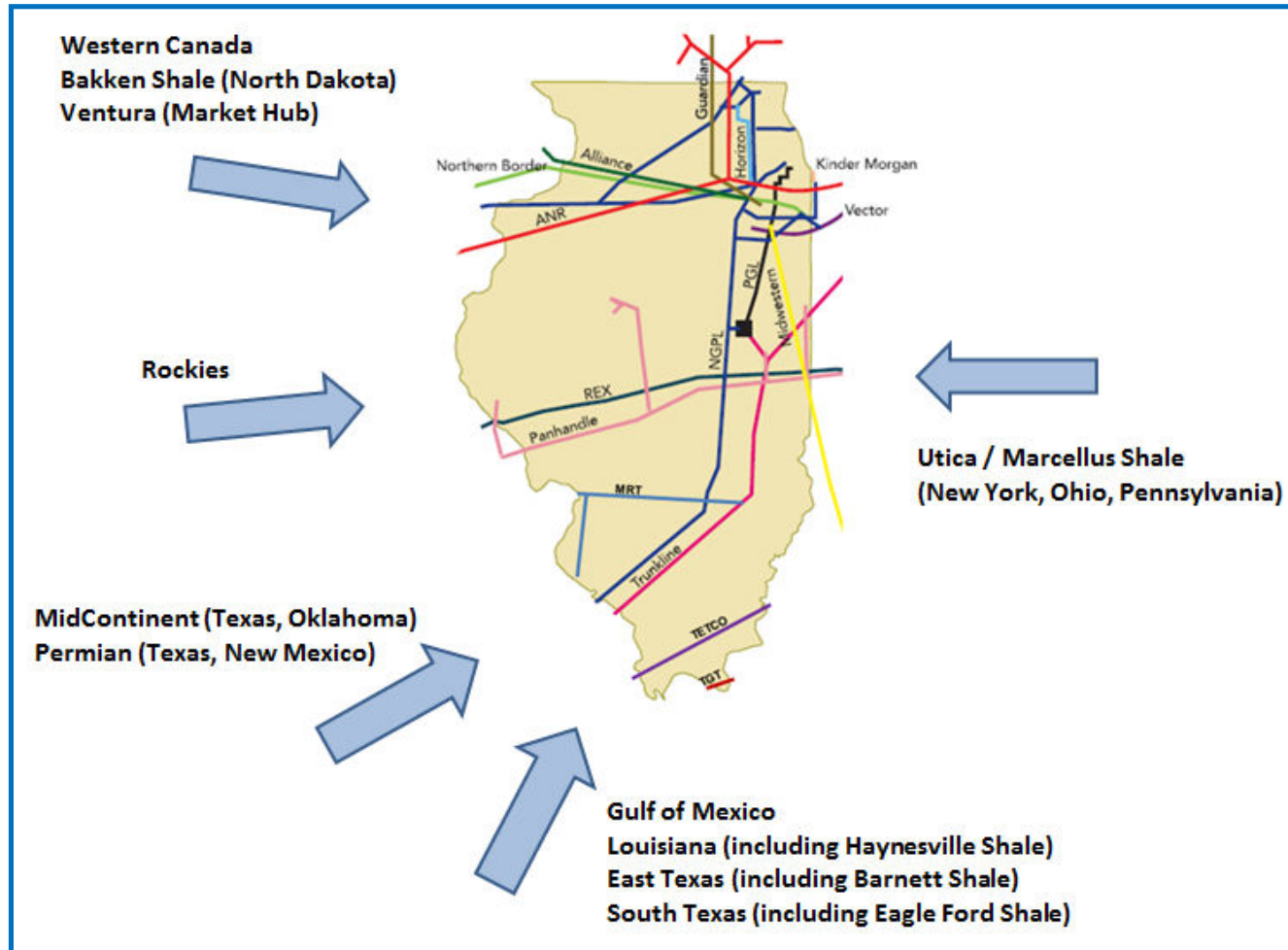
- 100% of firm gas supply requirements for winter periods purchased under firm contracts; competitive bidding for seasonal supply
 - Seasonal baseload purchases; monthly index pricing
 - Seasonal peaking supply purchases; daily index pricing
- Majority of firm gas supply purchased from major producers/marketers such as Anadarko, BG, BP Energy, Chesapeake, Chevron, ConocoPhillips, Shell, Oneok, Sequent and Southwestern Energy; credit worthiness and access to supply
- Forward planning and procurement cycle
 - Transportation and storage secured under long-term contracts
 - Right of first refusal

Gas Supply Strategy

- Firm transportation capacity back to major production basins and liquid market centers in the U.S.
 - Illinois utilities are in an advantageous location.
- Diversified access to conventional production basins: Midcontinent, Gulf Coast, East Texas, South Texas, Louisiana, Rockies, and Canada
 - Access to shale plays including Fayetteville, Haynesville, Barnett and Bakken; increased access to Utica and Marcellus shale with addition of new infrastructure (Eastern shales hold 40% of US natural gas reserves)
- Leverage capacity resources on interstate pipelines



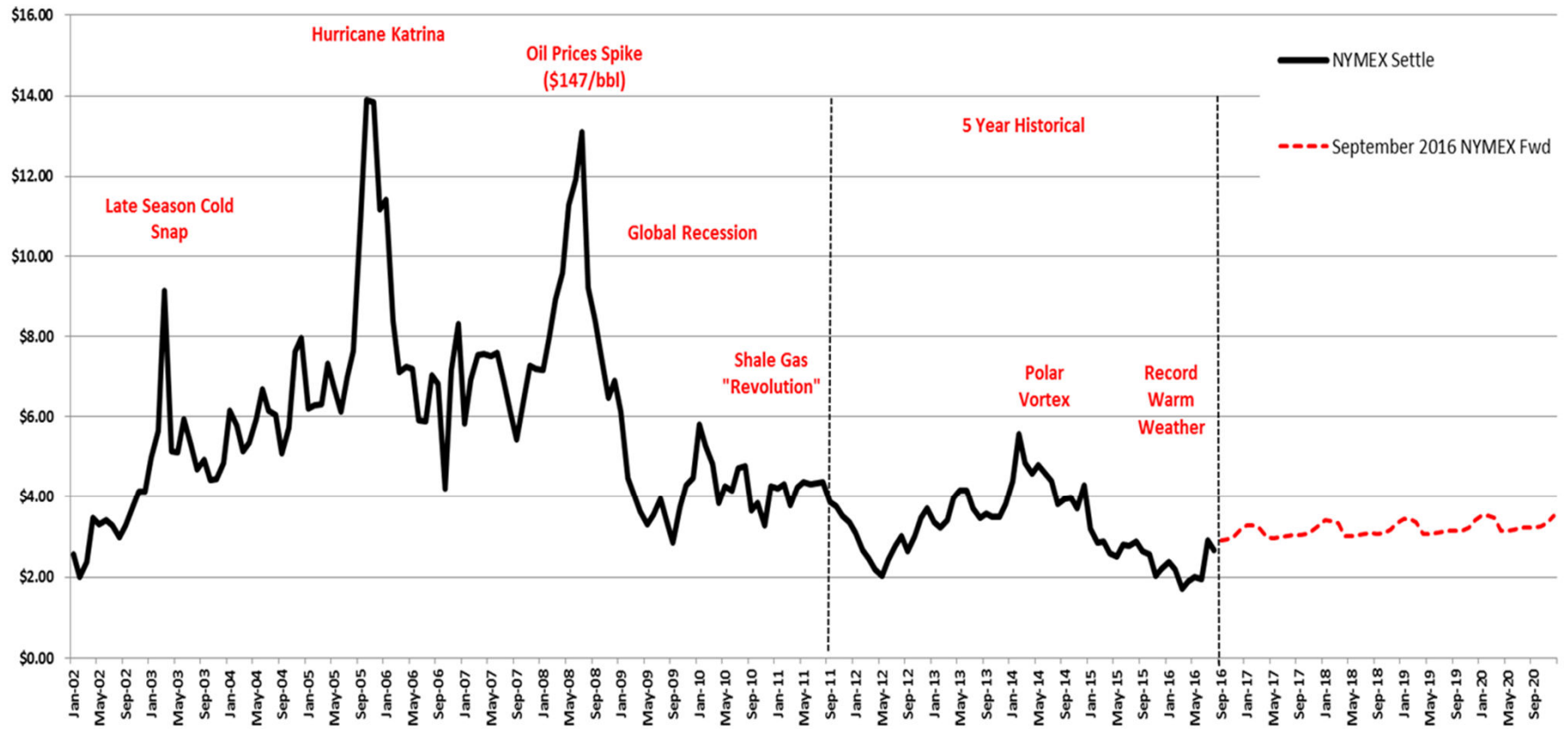
Illinois Access to Natural Gas Supply



New Infrastructure to Illinois Markets

<u>Project</u>	<u>Capacity</u>	<u>In-Service Date</u>
ANR SEML	0.6 Bcf/d	April 2015
REX bi-directional	1.8 Bcf/d	August 2015
REX expansion	0.8 Bcf/d	Q4 2016
NGPL Chicago Market Expansion	238,000 MMBtu/d	November 2016
Rover Pipeline Project	3.25 Bcf/d	June 2017

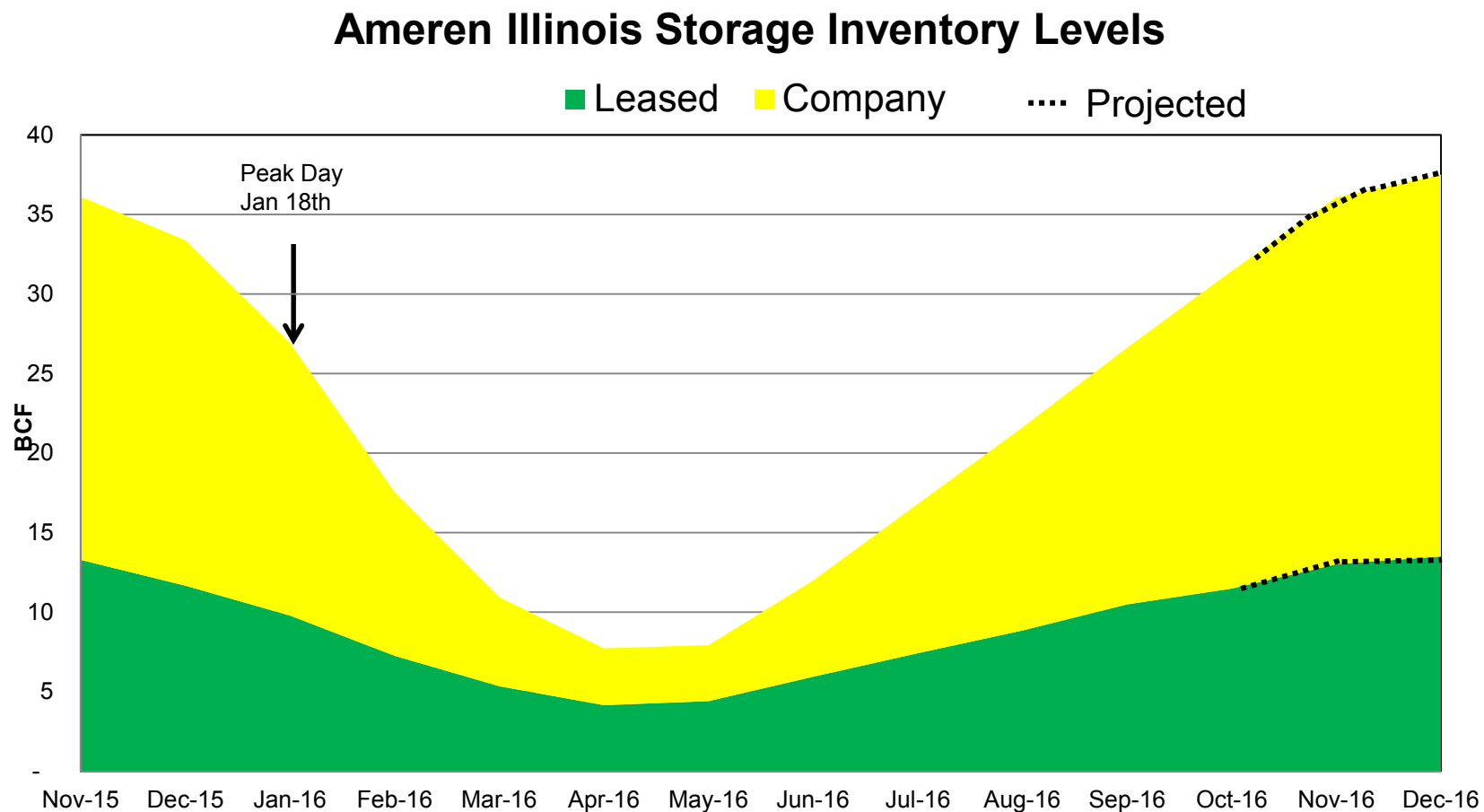
Natural Gas Market Pricing



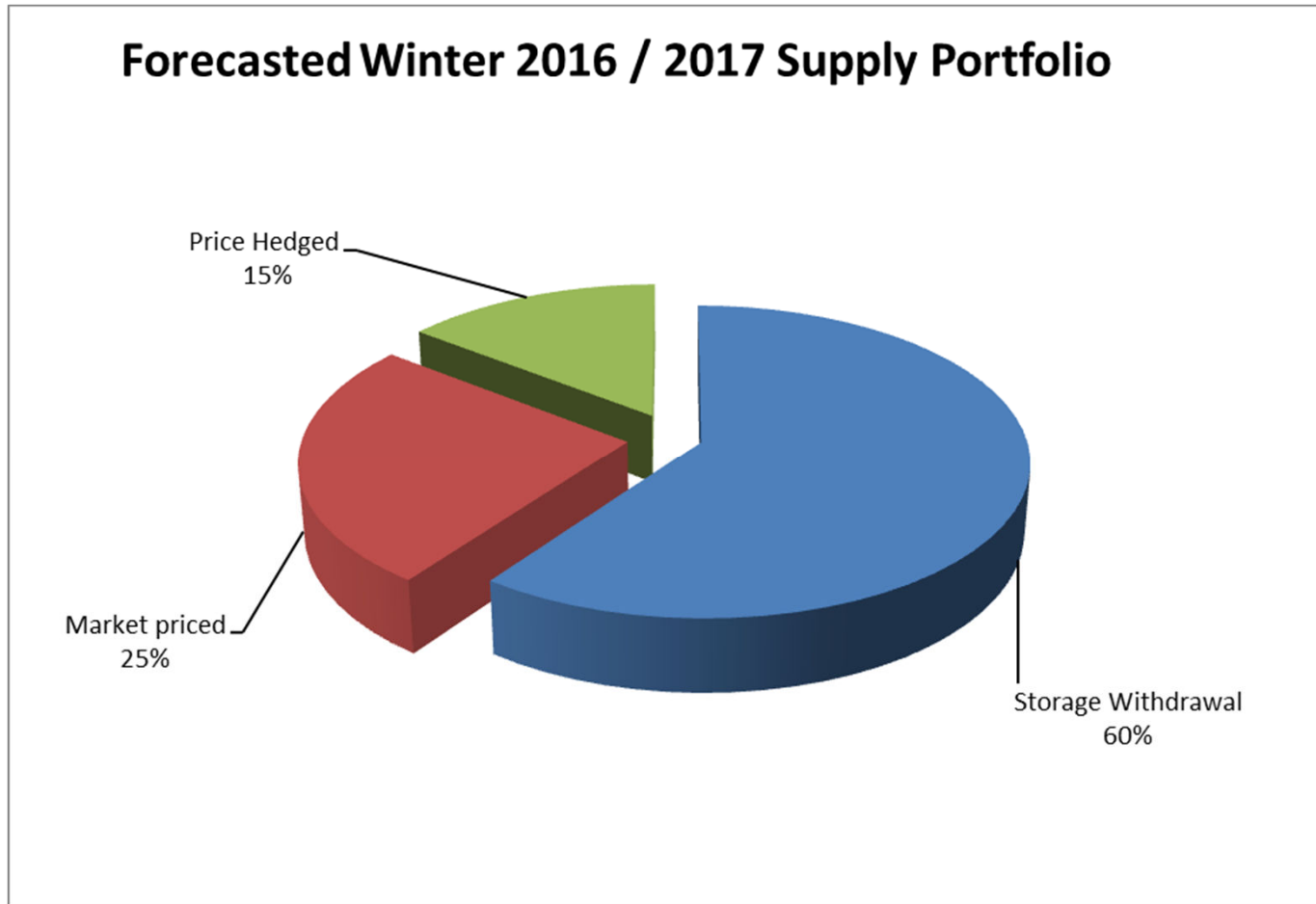
Price Risk Hedging Strategy

- Hedge target of 50-75% of normal winter demand against market price volatility
 - Hedge transactions generally executed ratably over 12-36 month horizon prior to each winter; layer-in price hedge positions over time “Dollar-Cost-Average”
- Primary methods to hedge system supply:
 - Storage inventory
 - Fixed price physical supply
 - Financially settled options and swaps (over-the-counter or cleared)
 - Fixed/Float swaps
 - Basis swaps
 - Call options
 - Collars
 - Exchange traded futures and options contracts (NYMEX and ICE)
- Target at least 30-50% of gas supply during normal winter from storage
- Financial transactions provide liquidity and diversification of credit risk

Ameren Illinois Storage Inventory Levels



Ameren Illinois Natural Gas Supply Position for Winter 2016/2017



75% Price Hedged
25% Market Priced

Current Winter Preparations

- Storage inventories will be within planned operating levels at the start of winter except for a few fields that have a normal fill target of mid-November/mid-December
- Seasonal firm gas supply acquisition for winter period is essentially complete
- Price hedging for winter 2016/2017 period is largely complete
- Interstate pipeline capacity to meet peak design day has been secured under firm agreements

Gas/Electric Coordination Update

- FERC issued Order 809 directing interstate pipelines to adopt revised nomination cycles to provide additional flexibility for generators to schedule needed gas supplies effective 4/1/2016
- Illinois LDCs have modified gas supply acquisition and capacity release procedures to accommodate new nomination cycles and capacity release timelines
- Northern Illinois natural gas utilities continue to engage in discussions with PJM and individual power generators to address firm capacity needs
- Gas distribution system designed for winter peak heating demand. The primary consideration by the gas utilities is maintaining safe, firm reliable service to customers

Summary

- Gas supply acquisition and price hedging are nearly complete, and storage injections are on schedule for this coming winter
 - Prepared for extremes-warm or cold-and everything in between
- Expect higher usage of natural gas this winter season
 - 75% of annual customer usage occurs during the heating season
 - Natural gas usage is highly dependent on temperature; last winter was 20% warmer than normal; warmest winter on record for Illinois
 - Consensus outlook is calling for more normal (or colder than normal) winter
- Expect higher prices this winter compared to last year
 - Current natural gas futures prices are over 60% higher than last winter
 - Hedging, storage and other factors will likely mitigate rate impacts